

Office of the State Auditor
Division of State Audit

North Dakota Beef
Commission
Bismarck, North Dakota

Audit Report for the
Two Year Period Ended June 30, 2007
Client Code 624

Robert R. Peterson
State Auditor



**North Dakota Beef Commission
Bismarck, North Dakota**

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INDEPENDENT AUDITOR'S REPORT

Honorable John Hoeven, Governor
Members of the Legislative Assembly
The North Dakota Beef Commission

We have audited the accompanying financial statements of the governmental activities and the major fund of the North Dakota Beef Commission, a department of the State of North Dakota, as of and for the year ended June 30, 2007, which collectively comprise the North Dakota Beef Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the North Dakota Beef Commission's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the North Dakota Beef Commission as of June 30, 2006 were audited by other auditors whose report dated August 17, 2006 expressed unqualified opinions on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of North Dakota Beef Commission are intended to present the financial position and changes in financial position of only that portion of the financial statements of the State of North Dakota that is attributable to the transactions of North Dakota Beef Commission. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2007 and 2006, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the North Dakota Beef Commission as of June 30, 2007, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2007, on our consideration of the North Dakota Beef Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the North Dakota Beef Commission. The accompanying supplementary information on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements of North Dakota Beef Commission. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robert R. Peterson
State Auditor

September 9, 2007

NORTH DAKOTA BEEF COMMISSION
Management's Discussion and Analysis
June 30, 2007 and 2006

As management of the ND Beef Commission, we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2007.

Financial Highlights

- The assets of the Commission exceeded its liabilities as of June 30, 2007 and 2006, by \$531,279 and \$501,575 (net assets), respectively.
- The Commission's total net assets increased for the year ending June 30, 2007 by \$29,704 and decreased by \$19,846 for the previous fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the ND Beef Commission's basic financial statements. The Commission's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide-financial statements* are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Commission that are principally supported by beef check-off assessment revenue.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the Commission is a governmental fund.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spend-able resources*, as well as *balances of spend-able resources* available at the end of the fiscal year.

NORTH DAKOTA BEEF COMMISSION
Management's Discussion and Analysis - continued
June 30, 2007 and 2006

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand in the long-term impact of the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Commission is granted a continuing appropriation for the collection of beef check-off funds pursuant to NDCC Chapter 4-34 and must report to the legislature, or their appointed committee, at the beginning of each legislative session on programs funded with check-off dollars for the previous two years.

Notes to the financial statements and other information. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Net Assets as of June 30, 2007 and 2006			Changes in Net Assets For Fiscal Years Ending June 30, 2007 and 2006		
	Governmental Activities 2007	Governmental Activities 2006		Governmental Activities 2007	Governmental Activities 2006
Total Assets	\$ 652,947	\$ 647,472	Revenues		
			General Revenues		
			Interest on investments	\$ 14,712	\$ 10,489
Long-term liabilities	\$ 4,951	\$ 14,343	Program Revenues		
Other Liabilities	\$ 116,717	\$ 131,554	Assessment revenue	\$ 574,932	\$ 543,441
			Other Income	8,945	10,960
Total Liabilities	\$ 121,668	\$ 145,897	Total Revenues	\$ 598,589	\$ 564,890
Net Assets			Expenses		
Unrestricted	\$ 531,279	\$ 501,575	Governmental Activities		
Total net assets	\$ 531,279	\$ 501,575	Agriculture and commerce	\$ 568,885	\$ 584,736
			Total Expenses	\$ 568,885	\$ 584,736
			Increase in net assets	29,704	(19,846)

NORTH DAKOTA BEEF COMMISSION

Management's Discussion and Analysis - continued

June 30, 2007 and 2006

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceeded liabilities by \$531,279 at the close of the most recent fiscal year.

By far the largest portion of the Commission's net assets are represented by cash and investments. The Commission uses these assets to conduct programs of beef promotion, research and education to increase the consumer demand for beef.

Financial Analysis of the Government's Funds

As noted earlier, the Commission used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Commission's *governmental funds* is to provide information on near-term inflows, outflow, and balances of *spend-able* resources. Such information is useful in assessing the Commission's financing requirements.

Economic Factors

Supply and demand for American beef has always been the determining factors of profitability for state beef producers. In 2007, we have seen wholesale beef demand up slightly over 2006 but there is continued concern over when we may hit a "ceiling" when it comes to consumer willingness to buy beef over cheaper competing proteins. Higher energy and food prices continue to limit consumers spending dollar. A change in their choices of beef cuts is becoming apparent when you compare wholesale primal values against last year's prices. For the first half of 2007, the lower valued Chuck and Round primals are up 9 percent and 8 percent respectively, while more expensive middle meat cuts like the Rib and Loin are unchanged and up 2 percent relative to the same period of 2006. This is most likely an indication that the higher priced beef cuts are running into consumer resistance. This tendency is expected to continue through the remainder of 2007. Retail prices are substantially higher than last year and are on pace to challenge the record retail prices that occurred in 2005. At mid-year, all fresh retail prices were up 3 percent at \$3.74/lb. Total beef spending during the first half of 2007 totaled \$36.6 billion, 4 percent above last year and the largest six-month figure in history.

Currently, higher grain prices and continued drought will continue to have a major impact on the cattle and beef supply situation. With the severe drought in the Southern Plains last year and in the Southeast and Western regions of the country this year, the US cowherd on January 1, 2008 is projected to be nearly flat with the cycle-low in 2004. The US cowherd is forecast to total 41.9 million head on January 1, 2008, down almost 150,000 head from 2007. The 2007 calf crop also dropped about 170,000 head to the lowest level in more than fifty years. No growth in the cowherd equals no growth in the calf crop, which leads to no growth in the domestic fed cattle supply. Domestically, the only growth in output expected over the next couple of years is through carcass weights. US beef production is expected to total 26.25 billion pounds in 2007, nearly flat with 2006, and is forecasted to remain flat in 2008 and 2009.

Access to export markets will continue to be a priority for industry and government. Recovering from the loss of this market in late 2003 is critical to sustain growth, especially when 96 percent of the world's population and potential beef consumers live outside of the borders of the United States. By accessing the Japanese and South Korean markets, two of the United States' largest customers, the export picture will improve dramatically.

While many supply and demand factors are outside of the control of the beef checkoff program, there will continue to be several things that the beef checkoff program will address to increase the possibility that consumers will choose beef over the competition. This includes continually increasing the knowledge pool when it comes to beef nutrition, beef safety, new product development, and confirming beef's role in a healthful diet. Taking the positive message about beef to consumers through beef promotion programs, public relations efforts, and education programs for consumers, health professionals, and other consumer groups continue with great success. And finally, a national industry-wide long range plan that charts the course for the beef industry will continue to provide focus to consistently meet the global consumer needs and continue to increase demand.

Requests for information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the ND Beef Commission, 4023 State Street, Bismarck, ND 58503.

ND BEEF COMMISSION
Statements of Net Assets
For the Periods Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash and cash equivalents	\$ 299,810	\$ 493,457
Investments	299,000	99,000
Assessments Receivable	52,548	52,412
Interest Receivable	1,589	1,916
Due from other state agencies	<u>-</u>	<u>687</u>
Total Assets	<u>\$ 652,947</u>	<u>\$ 647,472</u>
Liabilities		
Accounts Payable	\$ 33,027	\$ 54,457
Accrued Payroll	13,752	12,988
Due to other state agencies	-	228
Due to cattlemen's beef board	52,831	51,969
Due to other states	1,950	2,111
Long-term Liabilities:		
Compensated absences due within one year	15,157	9,801
Compensated absences due in more than one year	<u>4,951</u>	<u>14,343</u>
Total Liabilities	<u>\$ 121,668</u>	<u>\$ 145,897</u>
Net Assets		
Unrestricted net assets	<u>\$ 531,279</u>	<u>\$ 501,575</u>
Total Net Assets	<u><u>\$ 531,279</u></u>	<u><u>\$ 501,575</u></u>

The accompanying notes are an integral part of these financial statements.

ND BEEF COMMISSION
Statement of Activities
For the Period Ended June 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Grants and Contributions (Beef Checkoff)	
<u>Governmental Activities:</u>				
Agriculture and commerce (Net of \$610,969 remitted to other states and Cattlemen's Beef Board)	<u>\$ 568,885</u>	<u>\$ 8,945</u>	<u>\$ 574,932</u>	<u>\$ 14,992</u>
				14,992
General Revenues:				
Unrestricted investment earnings				<u>14,712</u>
Total change in net assets				29,704
Net Assets, beginning of year				<u>501,575</u>
Net Assets, end of year				<u><u>\$ 531,279</u></u>

ND BEEF COMMISSION
Statement of Activities
For the Period Ended June 30, 2006

Functions/Programs		Program Revenues		Net (Expense) Revenue
		Charges for Services	Grants and Contributions (Beef Checkoff)	
Governmental Activities:	Expenses			
Agriculture and commerce (Net of \$573,912 remitted to other states and Cattlemen's Beef Board)	\$ 584,736	\$ 10,960	\$ 543,441	\$ (30,335)
				(30,335)
General Revenues:				
Unrestricted investment earnings				10,489
Total change in net assets				(19,846)
Net Assets, beginning of year				521,421
Net Assets, end of year				\$ 501,575

ND BEEF COMMISSION
Balance Sheets
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash and cash equivalents	\$ 299,810	\$ 493,457
Investments	299,000	99,000
Assessments Receivable	52,548	52,412
Interest Receivable	1,589	1,916
Due from other state agencies	<u>-</u>	<u>687</u>
Total Assets	<u>\$ 652,947</u>	<u>\$ 647,472</u>
Liabilities and Fund Balance		
Liabilities		
Accounts Payable	33,027	54,457
Accrued Payroll	13,752	12,988
Due to other state agencies	-	228
Due to cattlemen's beef board	52,831	51,969
Due to other states	<u>1,950</u>	<u>2,111</u>
Total Liabilities	<u>101,560</u>	<u>121,753</u>
Fund Balance		
Unreserved:		
Undesignated	<u>551,387</u>	<u>525,719</u>
Total Fund Balance	<u>551,387</u>	<u>525,719</u>
Total Net Assets	<u><u>\$ 652,947</u></u>	<u><u>\$ 647,472</u></u>

**Reconciliation of the Balance Sheet
to the Statement of Net Assets
June 30, 2007 and 2006**

Total fund balance	\$ 551,387	\$ 525,719
Liability for compensated absences	<u>(20,108)</u>	<u>(24,144)</u>
Net assets of governmental activities	<u><u>\$ 531,279</u></u>	<u><u>\$ 501,575</u></u>

The accompanying notes are an integral part of these financial statements.

ND BEEF COMMISSION
Statements of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Years Ended June 30, 2007 and 2006

	2007	2006
Revenues:		
Gross assessment revenues	\$ 1,185,901	\$ 1,117,353
Less:		
Assessment revenues remitted to other states	(36,031)	(30,807)
Assessment revenues remitted to Cattlemen's Beef Board	(574,938)	(543,105)
Net Assessment revenues	574,932	543,441
Interest Income	14,712	10,489
Beef gift certificates	24,420	21,140
Other revenue	8,945	10,960
Total Revenues	623,009	586,030
Expenditures:		
Program expenditures:		
International Promotion	17,200	19,985
Promotion	30,538	55,804
Research	12,568	225
Consumer Information	126,974	119,595
Industry Information	10,000	15,679
National program development	166,725	157,532
Total program expenditures	364,005	368,820
Beef gift certificates	24,420	21,140
Administration	208,916	212,983
Total Expenditures	597,341	602,943
Revenues over (under) expenditures	25,668	(16,913)
Fund Balance - July 1	525,719	542,632
Fund Balance - June 30	\$ 551,387	\$ 525,719
Reconciliaton of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities for the Fiscal Years Ended June 30, 2007 and 2006		
Net changes in fund balance	25,668	(16,913)
(Increase) decrease in compensated absences liability	4,036	(2,933)
Change in net assets of governmental activities	\$ 29,704	\$ (19,846)

NORTH DAKOTA BEEF COMMISSION
Bismarck, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
For The Two Year Period Ended June 30, 2007

Note 1 - Summary of Significant Accounting Policies

The responsibility for these financial statements, the internal control structure and compliance with laws and regulations belongs to the management of the North Dakota Beef Commission. A summary of the significant accounting policies follows:

A. Reporting Entity

For financial reporting purposes, the North Dakota Beef Commission includes all funds programs, and activities over which it is financially accountable. The North Dakota Beef Commission does not have any component units as defined by the Government Accounting Standards Board. The North Dakota Beef Commission is part of the State of North Dakota as a reporting entity. The financial statements report all revenue and expenditure activity in the operations program.

The North Dakota Beef Commission was established by NDCC chapter 4-34, and is vested with the powers to collect and expend an assessment of one dollar for each head of cattle sold within the state or from the state by residents of North Dakota. The Commission's responsibilities are to provide and participate in programs to increase the consumption of domestic beef through such means as advertising, research, consumer information, industry information, sales promotion, and education, but at no time may false or unwarranted claims be made on behalf of the beef industry. Additional responsibilities are to support beef promotion, research, and education activities of the national beef promotion and marketing organizations. The Commission is also to initiate, encourage, and sponsor research designed to solve problems in the beef industry and to enhance the sale and production of North Dakota beef cattle.

B. Reporting Structure

The financial statements include all activities of the reporting entity as defined above. In accordance with section 4-34-10 these activities are funded on a continuing appropriation basis from a special revenue fund, fund 229 (the Beef Commission operating fund).

C. Government-Wide and Fund Financial Statements

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the Commission. The Commission reports all activities as governmental activities which are financed through assessments. The Statement of Net Assets presents the reporting entity's assets and liabilities, with the difference reported

as net assets. The net assets are reported as unrestricted net assets with constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges for assessments for each head of cattle sold within the state or from the state by residents of North Dakota.

Separate fund financial statements are provided for the Beef Commission governmental fund.

D. Fund Accounting Structure

The Commission uses a fund to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The Commission reports the Beef Commission's operating fund as a major governmental fund. It is used to account for the collection of assessments and transactions to provide and participate in programs to increase the consumption of domestic beef through such means as advertising, research, consumer information, industry information, sales promotion, and education of the beef industry within the state.

E. Basis for Accounting

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period.

Major revenues that are susceptible to accrual include assessments and interest. All revenues are determined to be available if collected within one year of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due and payable.

F. Cash and Cash Equivalents

Cash and cash equivalents include bank deposits.

G. Investments

Investments include certificates of deposit that are reported at cost which approximates fair value.

H. Receivables

Receivables include interest on investments and assessments receivable.

I. Financial Statement Presentation

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

Note 2 - Organization and Related Party Transactions

As stated in Note 1, the Commission is an entity of the state of North Dakota and as such, other state agencies of the state and political subdivisions are related parties.

Note 3 - Deposits

Custodial Credit Risk

State law generally requires that all state funds be deposited in the state owned Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, “[a]ll state funds ... must be deposited in the Bank of North Dakota” or must be deposited in accordance with constitutional and statutory provisions.

Deposits of the Beef Commission at June 30, 2007 and 2006 include \$299,810 and \$493,457 respectively, of deposits at the Bank of North Dakota of interest-bearing operating cash under the control of the State Treasurer’s Office as required by law.

These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10. As of June 30, 2007, \$575,839 of the Commission’s bank balance of \$598,810 was exposed to custodial credit risk. As of June 30, 2006, \$569,486 of the Commission’s bank balance of \$592,457 was exposed to custodial credit risk.

Note 4 – General Long Term Debt

	<u>Balance</u> <u>7/1/2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2007</u>	<u>Amounts Due</u> <u>Within One Year</u>
Governmental Activities:					
Other long-term liabilities:					
Compensated absences	<u>\$ 24,144</u>	<u>\$ 11,121</u>	<u>\$ 15,157</u>	<u>\$ 20,108</u>	<u>\$ 15,157</u>

	<u>Balance</u> <u>7/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2006</u>	<u>Amounts Due</u> <u>Within One Year</u>
Governmental Activities:					
Other long-term liabilities:					
Compensated absences	<u>\$ 21,211</u>	<u>\$ 12,734</u>	<u>\$ 9,801</u>	<u>\$ 24,144</u>	<u>\$ 9,801</u>

Note 5 – Due To / Due From Other State Agencies

	<u>2007</u>	<u>2006</u>
<u>Due to other state agencies</u>		
Information Technology Department	\$ -	\$ 156
Central Services	<u>-</u>	<u>72</u>
Total	<u>\$ -</u>	<u>\$ 228</u>
<u>Due from other state agencies</u>		
Bank of North Dakota	<u>\$ -</u>	<u>\$ 687</u>

Note 6 – Pension Plan

The Beef Commission participates in the North Dakota Public Employees' Retirement System administered by the State of North Dakota. The following is a brief description of the plans.

Defined Benefit Pension Plan – NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Beef Commission. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension

benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Employees are entitled to unreduced monthly pension benefits equal to 2.00% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by

either the employee or by the employer under a "salary reduction" agreement. The Beef Commission has implemented a salary reduction agreement and is currently contributing the employees' share. The Beef Commission is required to contribute 4.12% of each participant's salary as the employer's share. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The Beef Commission's required and actual contributions to NDPERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$9,811, \$9,434, and \$9,216, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505, PO Box 1214, Bismarck, ND 58502-1214.

Note 7 – Risk Management

The Commission is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees and natural disasters. The Commission participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The Commission pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve month period. The State Bonding Fund currently provides the Commission with blanket fidelity bond coverage in the amount of \$300,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage

The North Dakota Workforce Safety & Insurance is an enterprise fund of the State of North Dakota. The Bureau is a state insurance fund and a “no fault” insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Note 8 – Office Lease Commitment

The Commission has two operating leases. One is for office space and the other for postage machine rent. The office space lease expires in 2009 and the equipment lease expires in 2008. Total rent expense for the years ended June 30, 2007 and 2006 was \$12,864 and \$12,864, respectively.

Lease commitments are as follows:

	<u>Operating Leases</u>
2008	\$12,254
2009	11,644

Note 9 – Outside Checking Account

The North Dakota Beef Commission has an outside checking account that was used for the “Beef Gift Certificate” program. Individuals would write out checks to the North Dakota Beef Commission and receive a check back from the gift certificate account for the same amount. The account has a bank balance of approximately \$34,029 and \$23,186 as of June 30, 2007 and 2006, respectively, which consists of outstanding checks accumulated since the account was opened.

Note 10 – Commitments

As of June 30, 2007, the North Dakota Beef Commission has approved \$200,000 to be paid to the NDSU Beef Systems Center of Excellence for research and development.

Note 11 – Postretirement Benefits

Former employees receiving retirement benefits under the Retirement Plan for Employees of the North Dakota Beef Commission are eligible to participate in the Retiree Health Benefits Fund, a cost-sharing multiple-employer plan, as administered by the Public Employees Retirement Board. During each month of employment, the Lottery contributes 1% of each employee's salary into the Retiree Health Benefits Fund. Total contributions for the fiscal years ending June 30, 2007, 2006, and 2005 were \$1,208, \$1,162 and \$1,135.

ND BEEF COMMISSION
Detailed Schedules of Expenditures
For the Periods Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Administration		
Compensation:		
Salaries	\$ 120,827	\$ 116,180
Benefits	40,933	39,821
Per diem - Commissioners	4,590	4,020
Operations:		
Rent	11,304	11,134
Audit	6,500	6,150
Compliance program	1,232	2,305
Telephone	1,568	1,563
Equipment, service, programming	3,243	13,993
Supplies, postage, printing, legal	3,363	2,974
Insurance	942	952
Travel - staff	3,373	4,673
Travel - commissioners	11,041	9,218
Total Administration	<u><u>\$ 208,916</u></u>	<u><u>\$ 212,983</u></u>
 Program Expenditures		
International promotion	\$ 17,200	\$ 19,985
Promotion:		
Advertising	29,979	51,642
Retail and food service	559	3,935
Foodservice	-	227
Research	12,568	225
Consumer information:		
Health	16,098	10,024
Education	19,681	12,348
Public relations and media	56,241	54,910
Cattlemen	21,840	21,980
Producer information	13,114	20,333
Industry Information	10,000	15,679
National program development:		
Federation of State Beef Councils	166,725	157,532
Total Program Expenditures	<u><u>\$ 364,005</u></u>	<u><u>\$ 368,820</u></u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable John Hoeven, Governor
Members of the Legislative Assembly
The North Dakota Beef Commission

We have audited the financial statements of the North Dakota Beef Commission as of and for the year ended June 30, 2007, and have issued our report thereon dated September 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the North Dakota Beef Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Beef Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Dakota Beef Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying schedule of findings recommendations and agency response as Findings 624-07-1 and 624-07-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Beef Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of North Dakota Beef Commission in a separate letter dated September 9, 2007.

The North Dakota Beef Commission's response to the findings identified in our audit are described in the accompanying schedule of findings recommendations and agency responses. We did not audit North Dakota Beef Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the North Dakota Beef Commission, Legislative Audit and Fiscal Review Committee and management and is not intended to be and should not be used by anyone other than these specified parties.

Robert R. Peterson
State Auditor

September 9, 2007

**REPORT ON COMPLIANCE BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH CERTAIN PROVISIONS OF THE BEEF
PROMOTION AND RESEARCH ACT OF 1985 AND THE BEEF PROMOTION AND
RESEARCH ORDER**

Honorable John Hoeven, Governor
Members of the Legislative Assembly
The North Dakota Beef Commission

We have audited the financial statements of the governmental activities and the major fund of the North Dakota Beef Commission, a department of the State of North Dakota, as of and for the year ended June 30, 2007, which collectively comprise North Dakota Beef Commission's basic financial statements and have issued our report thereon dated September 9, 2007.

In connection with our audit, nothing came to our attention that caused us to believe the North Dakota Beef Commission failed to comply with the terms, in so far as they related to the accounting matters of the Beef Promotion and Research Act of 1985 and the Beef Promotions and Research Order (the "Order"), relative to the use of funds collected by the North Dakota Beef Commission and with the terms described in section 1260.181(b)(7) of the Order relative to prohibited uses of funds collected by the North Dakota Beef Commission. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the North Dakota Beef Commission, Legislative Audit and Fiscal Review Committee and management and is not intended to be and should not be used by anyone other than these specified parties.

Robert R. Peterson
State Auditor

September 9, 2007

**North Dakota Beef Commission
Bismarck, North Dakota**

**SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT
AND FISCAL REVIEW COMMITTEE**

For The Two Year Period Ended June 30, 2007

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

Responses to LAFRC Audit Questions

1. What type of opinion was issued on the financial statements?

An unqualified opinion was issued.

2. Was there compliance with statutes, laws, rules, regulations under which the agency was created and is functioning?

Yes – A review was made of Chapter 4-34 and other pertinent chapters of the North Dakota Century Code and we felt the Board operated within these statutes, laws, rules, and regulations under which it was created.

3. Internal control adequate and functioning effectively?

No. We noted the following significant deficiencies in internal control: 1) The North Dakota Beef Commission has not completed a fraud risk assessment – see page 30; 2) The North Dakota Beef Commission does not have a Code of Ethics or a Code of Business Conduct – see page 30, and; 3) We noted a lack of segregation of duties regarding the Beef Gift Certificate checking account – see page 31.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior year audit report?

There were no prior year findings.

- 6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.**

Yes – see copy of management letter on page 33.

LAFRC Audit Communications

- 1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

- 2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.**

The Beef Commissions' financial statements do not include any significant accounting estimates.

- 3. Identify any significant audit adjustments.**

Significant audit adjustments were not necessary.

- 4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

None.

- 5. Identify any serious difficulties encountered in performing the audit.**

None.

- 6. Identify any major issues discussed with management prior to retention.**

This is not applicable for audits conducted by the Office of the State Auditor.

- 7. Identify any management consultations with other accountants about auditing and accounting matters.**

None.

- 8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.**

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Beef Commission.

September 9, 2007

To the Board of Commissioners
North Dakota Beef Commission
Bismarck, North Dakota

This letter is intended to inform the Board of Commissioners about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the Board of Commissioners.

The following summarizes various matters which must be communicated to you under auditing standards generally accepted in the United States of America.

The Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

Our audit of the financial statements of the North Dakota Beef Commission for the year ended June 30, 2007 was conducted in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

The management discussion and analysis is not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and expressed no opinion on it.

The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and in, our opinion based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As part of our audit, we considered the internal control of the North Dakota Beef Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the North Dakota Beef Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Accounting Estimates

Accounting estimates are an integral part of the preparation of the financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. The Board of Commissioners may wish to monitor throughout the year the process used to compute and record these accounting estimates.

Audit Adjustments

There were no audit adjustments made to the original trial balance presented to us to begin our audit. Of the adjustments that were recorded, there were no adjustments that could, in our judgment, either individually or in aggregate, have a significant effect on the North Dakota Beef Commission's financial reporting process.

Accounting Policies and Alternative Treatments

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Beef Commission. The significant accounting policies used by the North Dakota Beef Commission are described in Note 1 to the financial statements. The Beef Commission did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited basic financial statements. If such documents were to be published, we would not have responsibility to determine that such financial information was not materially inconsistent with the audited statements of the Beef Commission.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to be of service to the North Dakota Beef Commission.

Sincerely,

Kevin Scherbenske
Auditor In-Charge

**North Dakota Beef Commission
Bismarck, North Dakota**

FINDINGS, RECOMMENDATIONS, AND AGENCY'S RESPONSE

For The Two Year Period Ended June 30, 2007

Lack of Fraud Risk Assessment and Code of Ethics or a Code of Business Conduct

(Finding 624-07-1)

The North Dakota Beef Commission has not completed a fraud risk assessment and does not have a Code of Ethics or a Code of Business Conduct. The Committee of Sponsoring Organizations' Internal Control – Integrated Framework identifies these as important elements of adequate internal control.

Periodic fraud risk assessments are necessary to identify potential areas of fraud to help ensure adequate controls are put into place. A proper Code of Ethics or Code of Business Conduct helps establish a sound control environment. This will help communicate to employees what behaviors are expected and what behaviors will not be tolerated and the consequences of not complying with these important policies.

The North Dakota Beef Commission was unaware of these requirements.

RECOMMENDATION:

We recommend the North Dakota Beef Commission perform periodic fraud risk assessments and properly address significant risks that are identified. Further the Beef Commission should establish a formal Code of Ethics or a Code of Business Conduct.

AGENCY'S RESPONSE:

The ND Beef Commission was not aware of this requirement prior to this audit. We will be happy to comply but do not feel it is our responsibility to develop a "fraud risk assessment" or a formal "Code of Ethics" without a template or direction provided by OMB. As soon as they provide further guidance, we will comply with standards established by the state of ND.

Inadequate Controls Over the Beef Gift Certificate Checking Account

(Finding 624-07-2)

The North Dakota Beef Commission manages a Gift Certificate program where individuals and businesses can purchase “Gift Certificates” from the Commission. These “Gift Certificates” are checks written from an independent checking account maintained by the Commission. The checks are to be used for the purchase of beef related products at grocery stores or prepared meals at restaurants, however, there is nothing that requires this use as they are simply checks and could be deposited into the receiver’s bank account, cashed, or used for any other purchase.

All three employees of the North Dakota Beef Commission have access to write and sign checks from the Beef Gift Certificate Program. As such, there is no way for the North Dakota Beef Commission to have adequate segregation of duties regarding reconciliation of the bank statements. Due to the nature of the program, many of the checks do not have a payee on the check when written, as they are given as prizes at later events, or are payable to a grocery store or restaurant.

A good internal controls structure requires segregation of duties to allow employees to catch any potential errors or fraudulent activity during the course of their job duties. This weakness was included in the 2003 North Dakota Beef Commission audit report.

The bank account currently has a balance of approximately \$35,000 due to outstanding checks – some of which were issued years ago and appeared to have been lost and will remain uncashed. The North Dakota Beef Commission is in the process of determining how it will clear up some of these old outstanding checks.

RECOMMENDATION:

We recommend the ND Beef Commission establish proper internal controls over the gift certificate checking account.

AGENCY’S RESPONSE:

The ND Beef Commission has worked to implement all past recommendations related to the Beef Gift Certificate program and the two bank accounts that have been used for this program. The original account will be closed within the next 18 months and funds remaining in the account will be returned to Beef Gift Certificate purchasers if they can be located. Any funds left that cannot be returned will be turned over to Unclaimed Property. Then the account for Beef Gift Certificates at the Bank of North Dakota then will become the only account used.

The issue of proper internal control has been discussed at length relative to this account. However, the ongoing problem always comes back to the fact that a customer wanting to purchase a Beef Gift Certificate at the Beef Commission office must be able to walk in with their order and leave in minutes with a Certificate. The Commission only has three staff members. There are many situations that arise when only one staff person is in the office. Because of this, all three staff members must be authorized to issue and sign Beef Gift Certificates so that when

that staff person is the only one available, customers can be serviced. While the ND Beef Commission understands there is an internal control risk handling the account in this manner, it is one that the Commission feels is necessary in order to make the program effective.

September 9, 2007

Nancy Jo Bateman
Executive Director
North Dakota Beef Commission
4023 State Street
Bismarck, North Dakota 58503

Dear Mrs. Bateman,

We have audited the financial statements of the North Dakota Beef Commission for the year ended June 30, 2007, and have issued a report thereon. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, by the Comptroller General of the United States. We have issued our report on internal control over financial reporting and on compliance based on an audit of financial statements performed in accordance with *Government Auditing Standards*. That report should be considered in conjunction with this management letter.

In connection with the audit, gaining an understanding of internal control, and tests of compliance with laws and regulations we noted certain conditions that we did not consider reportable as defined by *Government Auditing Standards*. We want to present these findings and recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will then reconsider their status as non-reportable conditions. These conditions were considered in preparing the report referenced above and in no way alter that report.

The following sections of the letter present our informal recommendations.

ACCOUNTS PAYABLE/EXPENDITURES

We recommend the North Dakota Beef Commission segregate accounting roles in PeopleSoft regarding the Accounts Payable module. Access to input and approval roles should be segregated.

We recommend the North Dakota Beef Commission ensure travel voucher only reimburse employees and board members for allowable meals.

I would encourage you to call our office if you have any questions about the implementation of recommendations included in your audit report or this letter. You may either call me or one of our audit managers at 328-2241.

Sincerely,

Kevin Scherbenske
Auditor in-charge